

February 1, 2013

Representative Angela Williams  
Chair, Legislative Audit Committee  
c/o the Office of the State Auditor  
200 East 14<sup>th</sup> Avenue  
Denver, Colorado 80203-2211

Dear Representative Williams:

This letter contains the Venture Capital Authority's report on the effects of the results of the implementation of Article 3.5 of Title 10, C.R.S., "the Venture Capital Program Act", and is hereby submitted in accordance with 24-46-206 C.R.S.

As of December 31, 2012, the following results had occurred:

Colorado Fund I (created June 2005) is the initial fund in which the Venture Capital Authority is a limited partner. The following Colorado Fund I investments have been made to date:

- Taligen Therapeutics, Inc. (Taligen) in August 2005 designated as a distressed urban (state-designated enterprise zone) investment.
- Theratogs, Inc. (Theratogs) in March 2006 designated as a rural investment.
- Surginetics, LLC (Surginetics) in March 2006 designated as a statewide investment.
- Smart Care Clinics, Inc. (Smart Care) in March 2006 designated as a statewide investment.
- Taligen Therapeutics, Inc. (follow on investment) in June 2006 designated as a distressed urban (state-designated enterprise zone) investment.
- Theratogs, Inc. (follow on investment) in September 2006 designated as a rural investment.
- Surginetics, LLC (follow on investment) in October 2006 designated as a statewide investment.
- EnVysion, Inc. (EnVysion) in December 2006 designated as a statewide investment.
- LogRhythm, Inc. (LogRhythm) in January 2007 designated as a statewide investment.
- Lijit Networks, Inc. (Lijit) in January 2007 designated as a statewide investment.
- Theratogs (follow on investment) in February 2007 designated as a rural investment.

- Surginetics (follow on investment) in March 2007 designated as a statewide investment.
- Taligen (follow on investment) in May 2007 designated as a distressed urban (state-designated enterprise zone) investment.
- Lijit (follow on investment) in June 2007 designated as a statewide investment.
- Oberon in August 2007 designated as a rural investment.
- LogRhythm (follow on investment) in October 2007 designated as a statewide investment.
- Atrato in December 2007 designated as a statewide investment.
- Taligen (follow on investment) in January 2008 designated as a distressed urban (state-designated enterprise zone) investment.
- Atrato (follow on investment) in January 2008 designated as a statewide investment.
- Taligen (follow on investment) in February 2008 designated as a distressed urban (state-designated enterprise zone) investment.
- EnVysion (follow on investment) in March 2008 designated as a statewide investment.
- EnVysion (follow on investment) in May 2008 designated as a statewide investment.
- Sierra Neuropharmaceuticals in July 2008 designated as a distressed urban (state-designated enterprise zone) investment.
- Lijit (follow on investment) in July 2008 designated as a statewide investment.
- Taligen (follow on investment) in September 2008 designated as a distressed urban (state-designated enterprise zone) investment.
- Oberon (follow on investment) in November 2008 designated as a rural investment.
- Sierra Neuropharmaceuticals (follow-on investment) in January 2009 designated as a distressed urban (state-designated enterprise zone) investment.
- LogRhythm (follow on investment) in March 2009 designated as a statewide investment.
- EnVysion (follow on investment) in March 2009 designated as a statewide investment.
- Taligen (follow on investment) in May 2009 designated as a distressed urban (state-designated enterprise zone) investment.
- Aftama in July 2009 designated as a rural investment.
- EnVysion (follow on investment) in October 2009 designated as a statewide investment.
- Oberon (follow on investment) in March 2010 designated as a rural investment.
- Taligen (follow on investment) in June 2010 designated as a distressed urban (state-designated enterprise zone) investment.
- Lijit (follow on investment) in June 2010 designated as a statewide investment.

- Taligen (follow on investment) in August 2010 designated as a distressed urban (state-designated enterprise zone) investment.
- Digabit (formerly known as Aftama) (follow on investment) in September 2009 designated as a rural investment.
- EnVysion (follow on investment) in October 2010 designated as a statewide investment. Theratogs (follow on investment) in November 2010 designated as a rural investment.
- LogRhythm (follow on investment) in November 2010 designated as a statewide investment.
- EnVysion (follow on investment) in January 2011 designated as a statewide investment.
- Lijit (follow on investment) in February 2011 designated as a statewide investment.
- DCS in March 2011 designated as a distressed urban (state-designated enterprise zone) investment.
- Lijit (follow on investment) in April 2011 designated as a statewide investment.
- Oberon (follow on investment) in June 2011 designated as a rural investment.
- DCS in June 2011 designated as a distressed urban (state-designated enterprise zone) investment.
- Digabit (formerly known as Aftama) (follow on investment) in January 2012 designated as a rural investment.
- Qualvu (follow on investment) in January 2012 designated as a statewide investment.
- Oberon (follow on investment) in February 2012 designated as a rural investment.
- DCS (follow on investment) in February 2012 designated as a distressed urban (state-designated enterprise zone) investment.
- EnVysion (follow on investment) in July 2012 designated as a statewide investment.

Colorado Fund II (created January 2010) is the second fund in which the Venture Capital Authority is a limited partner. The following Colorado Fund II investments have been made to date:

- Kapost in May 2010 designated as a statewide investment.
- Lijit in June 2010 designated as a statewide investment.
- Kapost (follow on investment) in September 2010 designated as a statewide investment.
- Endoshape in April 2011 designated as a distressed urban (state-designated enterprise zone) investment.
- Lijit (follow on investment) in April 2011 designated as a statewide investment.
- Surefire in April 2011 designated as a statewide investment.
- Surefire (follow on investment) in May 2011 designated as a statewide investment.

- Rainmaker in May 2011 designated as a statewide investment.
  - Oberon (follow on investment) in June 2011 designated as a rural investment.
  - Mosaic in June 2011 designated as a distressed urban (state-designated enterprise zone) investment.
  - AktiVax in June 2011 designated as a rural investment.
  - FullContact (formerly known as Rainmaker) (follow on investment) in July 2011 designated as a statewide investment.
  - Grogger (formerly known as Kapost) (follow on investment) in November 2011 designated as a statewide investment.
  - AktiVax (follow on investment) in December 2011 designated as a rural investment.
  - Mosoro in January 2012 designated as a statewide investment.
  - Oberon (follow on investment) in February 2012 designated as a rural investment.
  - Aktivax (follow on investment) in March 2012 designated as a rural investment.
  - Surefire (follow on investment) in May 2012 designated as a statewide investment.
  - Birdbox in June 2012 designated as a statewide investment.
  - Collective IP in June 2012 designated as a statewide investment.
  - FullContact (formerly known as Rainmaker) (follow on investment) in July 2012 designated as a statewide investment.
  - Envysion in October 2012 designated as a statewide investment.
  - Endoshape in September 2012 designated as a distressed urban (state-designated enterprise zone) investment.
  - Virocyt in November 2012 designated as a statewide investment.
  - Daily Inches (formerly known as Grogger) in December 2012 designated as a statewide investment.
- Colorado Fund I investments – As of this date, Colorado Fund I has invested a total of \$22,343,534. This total was invested as follows: (a) \$4,900,738 in businesses located in distressed urban communities, which represents 90% of the Fund's 10-year investment requirement (due June 20, 2015); (b) \$4,017,529 in businesses located in designated rural counties, which represents 74% of the Fund's 10-year investment requirement (due June 20, 2015); and (c) \$13,425,266 in statewide businesses (located in Colorado, but not in distressed urban communities or designated rural counties) which represents 123% of the Fund's 10-year investment requirement (due June 20, 2015). The capital contributed to make the investments include certified capital contributed by the VCA of \$19,853,874 and \$2,489,660 contributed by the other partners of Colorado Fund I per the terms of Colorado Fund I's limited partnership agreement.
  - Colorado Fund II investments – As of this date, Colorado Fund II has invested a total of \$13,298,401. This total was invested as follows: (a) \$2,357,473 in businesses located in distressed urban communities, which represents 124% of the Fund's 3-year investment requirement (due January 4, 2013); (b) \$1,425,000 in

businesses located in designated rural counties, which represents 75% of the Fund's 3-year investment requirement (due January 4, 2013); and (c) \$9,515,928 in statewide businesses (located in Colorado, but not in distressed urban communities or designated rural counties), which represents 250% of the Fund's 3-year investment requirement (due January 4, 2013). The capital contributed to make the investments include certified capital contributed by the VCA of \$11,724,280 and \$1,574,121 contributed by the other partners of Colorado Fund II per the terms of Colorado Fund II's limited partnership agreement.

- High Country Venture, LLC, as manager of Colorado Fund I and II, has reviewed 880 business plans to date, of which 62 were from businesses located in designated rural counties and 98 from distressed urban communities.
- The VCA committed to contribute \$21,766,408 in certified capital to Colorado Fund I and \$25,374,260 in certified capital to Colorado Fund II over each of the 10-year terms of each fund from payments the Venture Capital Authority receives from the insurance companies that purchased the premium tax credits. Since the program's inception, \$21,766,408 of certified capital has been paid by the insurance companies to the VCA for Colorado Fund I and \$12,261,792 for Colorado Fund II.
- In addition, the insurance companies have contractually committed to purchase two additional years of annual premium tax credits from 2013 to 2014 and pay the VCA additional amounts for these tax credits. These funds have also primarily been committed to Colorado Fund II.
- The number of jobs created in Colorado from qualified investments made by CFI, as reported by CFI, is 489 and 228 for CFII.
- CFI has received distributions of proceeds from 2 investments totaling \$5,003,691.
- Colorado Fund I has paid qualified distributions for expenses related to managing and operating Fund I from certified capital (contributed by the VCA) of \$3,471,079 since the program's inception, of which \$280,533 was paid in 2012. Colorado Fund II has paid qualified distributions for expenses related to managing and operating Fund II from certified capital (contributed by the VCA) of \$1,341,592 since the program's inception (January 2010), of which \$586,164 was paid in 2012.
- From certified capital contributed by the VCA, Colorado Fund I has invested (a) \$525,843 in 2012 and \$3,177,243 since the program's inception in businesses located in distressed urban communities, (b) \$979,978 in 2012 and \$3,841,062 since the program's inception in businesses located in designated rural counties, and (c) \$891,541 in 2012 and \$12,835,569 since the program's inception in statewide businesses (businesses located in Colorado but not in distressed urban communities or designated rural counties). From certified capital contributed by the VCA, Colorado Fund II has invested (a) \$842,945 in 2012 and \$2,317,693 since the program's inception (January 2010) in businesses located in distressed urban communities, (b) \$860,235 in 2012 and \$1,400,955 since the program's inception in

businesses located in designated rural counties, and (c) \$4,169,801 in 2012 and \$8,005,632 since the program's inception in statewide businesses (businesses located in Colorado but not in distressed urban communities or designated rural counties).

The VCA's mission and goals follows, along with results to date:

- To provide assistance in the formation of new businesses and the expansion of existing businesses that create jobs in the state. Colorado Fund I has made total investments in businesses since the program's inception of \$22,343,534 and such businesses have reported the creation of 489 jobs in the state to date. Colorado Fund II has made total investments in businesses since the program's inception of \$13,298,401 and such businesses have reported the creation of 228 jobs in the state to date.
- To utilize the enterprise fund as a revolving evergreen fund to provide continued seed and early stage investment capital to qualified businesses. The VCA has entered into Limited Partnership Agreements that provide for return of principal and a negotiated percent of profits to the degree that Colorado Fund I and II's investments are successful – which creates the mechanism for a revolving evergreen fund. Since Colorado Fund I and II are seed and early stage funds and it is estimated they will not begin to generate significant funds from investments until years 7-10 (based on industry expectations for seed and early stage funds in general), it is too early to evaluate performance in this area; however the two distributions to date provide an early indication for the potential for success under this program.
- To establish selection criteria and a competitive process for the selection of fund manager(s). The VCA established selection criteria and selected a fund manager after utilizing a competitive request for proposal process.
- To establish an insurance premium tax credit selling process that will provide funds for the program at an offering of no less than eighty cents on the dollar. The VCA successfully completed the sale of all tax credits at an average price of eighty-six cents on the dollar—with no individual transaction completed for less than eighty cents on the dollar.
- To invest in businesses from different geographical areas of the State with specific milestones established for such investment. Colorado Fund I has made statewide investments of \$13,425,266, distressed urban community investments of \$4,900,738 and designated rural county investments of \$4,017,529 since the program's inception. Colorado Fund II has made statewide investments of \$9,515,928, distressed urban community investments of \$2,357,473 and designated rural county investments of \$1,425,000 since the program's inception.

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Representative Williams  
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Please call me at (303) 339-7263 if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Mark Soane" followed by a long horizontal line extending to the right.

Mark Soane  
Chair, Venture Capital Authority